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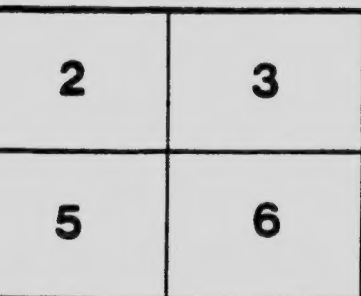
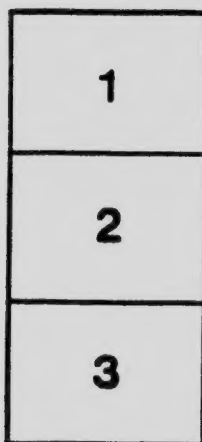
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RAILWAY ASSESSMENT AND TAXATION

IN THE

PROVINCE OF ONTARIO.

MEMORANDUM BY MESSRS. HELLMUTH AND MACMURCHY,
ON BEHALF OF THE RAILWAYS, SETTING FORTH SOME
OF THE FIGURES AND ARGUMENTS PRESENTED
TO THE SPECIAL COMMITTEE OF THE
LEGISLATURE, AT ITS MEETINGS,
ON 2ND, 3RD, AND 4TH DEC-
EMBER, 1903.

TORONTO.

1903.



Hellmuth

RAILWAY ASSESSMENT PROVINCE

MEMORANDUM BY MESSRS. HELLMUTH
RAILWAYS, SETTING FORTH SOME
PRESENTED TO THE SPE
LATURE, AT ITS ME
DEC

PRINCIPLES OF TAXATION.

According to the Report of the Ontario Assessment Commission, 1900, page 17, it is laid down that the principles of municipal taxation appear to be two:—

1. Taxation in proportion to ability to pay.
2. Taxation in proportion to municipal benefits received.

Dealing with the first, viz.:

"ABILITY TO PAY."

The arguments adduced in support of the ability of Canadian or Ontario, railways to pay greatly increased taxes are mainly based upon a comparison between the railways of the United States and Canada, and are epitomized by Mr. Pettypiece, J.P.P., in his article in *The Canadian Magazine* for February, 1903, "Railway Taxation," page 359, the following sentence:—

"Ability to Pay.

"According to the Inter-State Commerce Commission Report, the net income of the United States railways per mile in 1900 was \$1,180, and, according to the Statistical Year Book of Canada, the net income per mile of the Canadian railways of the same year was \$1,212. Therefore, the ability of the Canadian railways to pay taxes is apparent."

The comparison here made is, however, entirely misleading, the figures given not being corresponding ones.

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ASSESSMENT AND TAXATION IN THE PROVINCE OF ONTARIO.

HELLMUTH AND MACMURCHY, ON BEHALF OF THE
FORTH SOME OF THE FIGURES AND ARGUMENTS
TO THE SPECIAL COMMITTEE OF THE LEGIS-
AT ITS MEETINGS ON 2ND, 3RD AND 4TH
DECEMBER, 1903.

PROPER COMPARISON BETWEEN UNITED STATES AND CANADIAN RAILWAYS.

According to the Statistical Year Book of Canada for 1900 (pages 352-4), the income for Canadian railways was:

For the year ending June 30th,	
1900,	\$1,306
For the year ending June 30th,	
1901,	1,232
For the year ending June 30th,	
1902,	1,395

But out of this income the Canadian railways had to pay not only dividends on stock, but interest on their bonded indebtedness; while the \$1,180 net income of the United States railways for the year ending June 30th, 1900, and the \$1,400 for the year ending June 30th, 1902, is what remained after payment of the interest on the bonded indebtedness, and after payment also of the large amount imposed for taxes, and was wholly available for the payment of dividends upon stock, carrying forward to reserve, or for any other purpose that might be deemed advisable; while the figures which really correspond for the railways in the United States and Canada (the former being taken from the report of the Inter-State Commerce Commission, 1902) are:

1900—Canadian railways, . . .	\$1,306
United States railways, . . .	3,575
1902—Canadian railways, . . .	1,395
United States railways, . . .	4,029

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the figures
ling ones.

That is, the earnings of the United States roads, out of which interest on bonds and interest on stock must come, are three times greater than those of the Canadian roads; and when the United States roads have paid interest on their bonded indebtedness, they still had \$1,180 in 1900, and \$1,400 in 1902, per mile, to distribute among their shareholders; while when the Canadian roads have paid interest on their bonded indebtedness of \$404,806,847, at 5% (which is slightly under the average rate), they have used up \$20,240,242 of the total of \$26,322,911 of income (Statistical Year Book 1902, page 354), and have only \$6,082,669 left of net income out of which to pay dividends on stock, or \$325 per mile.

The proper comparison, therefore, to make with the United States roads as to net income is:

1902—United States railways.	\$1,400
Canadian railways.	325

That is, the net earnings per mile of the United States railways are more than $4\frac{1}{3}$ times as great as the net earnings of the Canadian railways.

If, therefore, the taxes on the Canadian railways bore the same proportion to their net income as the taxes on the United States railways bear to their net income, the \$274 average taxes per mile for the United States railways for the year ending June 30th, 1902 (report of Inter-State Commerce Commission, 1902, page 94), would in the case of the Canadian railways be \$63 per mile.

It may be noted here, that the average taxes per mile of the Grand Trunk Railway for 1902 in Ontario are \$56.72.

It is submitted, however, that such a proportion would not be a fair one, since taking the earnings for 1902 as a basis, is adopting the highest point which earnings have ever touched, and, although they may even slightly

increase for a year or more, yet all experience shews there will be a period or periods of retrogression.

Again, the net income of the United States railways is only arrived at after large deductions for taxes (that is, an average of \$274 per mile) have been made, whereas any large deductions for taxes of the Canadian railways would not leave a net income of \$325 per mile to compare with the \$1,400 per mile of the United States railways.

Further, the ability of the United States railways to pay \$14 per mile by way of yearly taxes and to give some reasonable return to their shareholders is much greater than the ability of the Canadian roads to pay \$63, and to give any return whatever to their shareholders. Indeed, of the \$460,401,863 share capital of the Canadian railways (page 354 Statistical Year Book, 1902) \$132,266,797 is preference capital, calling for interest at 5%, and if the interest on this preference share capital is paid, \$6,613,339 will be required; more than wiping out the entire balance of \$6,082,669, thus leaving absolutely nothing for those who have invested their money in the ordinary share capital of Canadian railways, which ordinary share capital amounts to \$328,135,066.

At the present time the railways in the Province of Ontario pay close upon \$350,000 annually in taxes, or at the rate of about \$50 per mile; and if any change is to be made in the amount of municipal taxes, it is submitted, it certainly should not be in the nature of an increase, since in the past year of Canadian railways, viz.: the year ending June 30th, 1902, the Government reports shew that if interest had been paid upon the bonded indebtedness and preference capital, there would not have remained any surplus with which to pay any dividend or interest upon the ordinary

share capital; but on the contrary, there would have been a deficit; while the United States roads, after paying interest upon 95.11 % of their bonded debt, which amounts to \$6,109,981.669, at varying rates, averaging close upon 6%, had, at \$1,400 per mile for over 202,471 miles, \$283,459,400 to distribute among their shareholders, or to carry forward to reserve or for other purposes, being at the rate of nearly 4¾% upon \$6,024,201,295, their entire share capital.

UNITED KINGDOM.

So far as the United Kingdom is concerned, no comparison can fairly be made between railways there and Canadian railways; and this aspect of the question might be dismissed without any further comment had it not been that some of those favoring increase of railway taxation in Ontario have endeavored to use the apparently high taxes paid in Great Britain as an argument for higher taxes here.

In the article before alluded to by Mr. Pettypiece, this view is set forth on pages 355-6.

On investigation, however, of the statistics it is found that while the total number of miles in operation in the United Kingdom in June, 1902, was 22,078, the net receipts available for distribution amounted to £39,069,076, or £1,769 per mile, *i.e.*, roughly \$8,845 per mile; this, too, is after paying a tax equivalent to \$950 a mile (although it must be remembered that the actual rate per mile in the country districts in England is hardly one-tenth of this sum, but the difference is made up by the enormous amount paid on terminals, etc., in London and the other large cities in the United Kingdom). It is apparent, therefore, that the net receipts in England are so very many times greater (twenty-five times) than in Canada that a

comparison cannot possibly be drawn between the two, further than to shew perhaps that the amount of taxes increases not in arithmetic but in geometric proportion to the increase in net revenue.

In comparing conditions in England or in the United States with conditions in Canada, so far as railways are concerned, it should be borne in mind that density of population is one of the most important factors bearing upon earning power; the greater the density, the greater the volume of business to be had and handled.

In the United Kingdom the density per square mile is over...	340
In the United States the density per square mile is over.....	25
In Canada the density per square mile is.....	1.5

To shew how this density affects the business of the railways, it may be stated that while the total passengers carried in Canada for the year ending

June 30th, 1902, was... 20,679,974

In the United States it was..... 649,878,505

And in the United Kingdom during the year 1900 (the figures for 1902 not being at present available)..... 1,142,000,000

Shewing that Canadian railways, with 18,714 miles in operation, carried 1,105 passengers for each mile of track; United States railways, with 202,407 miles of track carried 3,210 passengers for each mile of track; and United Kingdom railways, with 22,078 miles of track, carried 51,725 passengers for each mile of track, *i.e.*, the United States railways carried nearly three times more passengers than the Canadian railways for every mile of track; while the railways in the United Kingdom carried more than forty-six times the number of passengers for each mile of track.

In fact it can be safely asserted that in every fair comparison that can be made between United States railways and Canadian railways (to say nothing of railways in the United Kingdom), the traffic, earning capacity, gross and net, are from three to five times greater in the United States than in Canada.

It is, however, urged that it is not fair to make the comparison between United States railways and Canadian railways, but that a comparison should rather be made between the railways in the Province of Ontario and the railways in the neighboring States in the Union, and Michigan has been specially selected for this purpose.

STATE OF MICHIGAN.

A number of reasons might be urged on behalf of Canadian railways why it would not be fair to make such a comparison, and that the only really fair comparison is between the railways of Canada and of the United States; but a comparison between Ontario and Michigan will reveal very much the same state of facts as a comparison between the United States and Canada.

The area of the Province of Ontario is, roughly speaking, 222,000 square miles, while the population is 2,224,000; roughly speaking, a density of ten to the square mile, while the railway taxation paid in Ontario under the present system averages about \$50 per mile.

The area of the State of Michigan is 57,430 square miles, the population 2,420,982, the density of population 42.2 per square mile; the average railway tax for the year ending June 30th, 1902 (Report of Inter-State Commerce Commission for that year, page 94), is \$190 per mile. So that the tax upon the Ontario railways similar to that of Michigan on the same basis of area and population would be \$45 a mile, or some \$5 less

than the Ontario railways are now paying. The railway mileage in Ontario is about the same as the railway mileage in Michigan, the former being 7,139 miles, while the Michigan mileage is 8,352 (Report of Inter-State Commerce Commission, page 12).

It may be said one should take the older or more settled portion of Ontario and compare it with the older and more settled portion of Michigan; but a comparison of this nature is practically impossible, as the railways operate both in the older and newer portions of Province and State, and the only returns that can be got showing traffic and earning power treat Michigan as a whole, and Ontario as a whole, while the taxes paid both in Ontario and Michigan are given at an average per mile over the entire mileage in the respective Province and State, whether the territory is organized or unorganized. Besides, it is obvious that, in considering the taxation of any given railway, one must have regard to the situation of the railway as a whole, and that those portions which run through a sparsely settled territory cannot fairly be ignored, and only those parts considered where the population is more dense.

STATE OF MASSACHUSETTS.

The statistics in regard to the State of Massachusetts furnish further cogent evidence, if any is needed, that the most important factor in increasing net railway earnings is density of population.

The railways of Massachusetts paid an annual tax for the year ending June 30th, 1902, of \$1,401 per mile, this being the highest tax paid in any State in the Union, and yet, owing to the enormous net earnings, it did not press heavily upon the railways.

According to the Massachusetts Railroad Commissioners' Report, 1902, for the year ending June 30th, 1901,

the railroad mileage in Massachusetts . 2,108 miles.

The gross earnings were, \$82,385,586
The operating expenses, . 57,293,591
Leaving an income of, . . . 25,091,995

In other words, the gross earnings and income of all the railways in Canada, with a mileage of over 18,000, are only about \$1,000,000 greater than those of Massachusetts, a State which has an area of 8,040 square miles, with a population in 1906 of 2,805,346, and a density of 349 persons to the square mile—greater even than that of the United Kingdom.

Out of this \$25,091,995 the railways of Massachusetts paid \$6,410,411 interest on funded debt and loans, and had a net income left of \$18,681,584, being at the rate of \$8.862 per mile—again a little greater than the net earnings of railways in the United Kingdom—shewing conclusively that density of population is the supreme test of net earning capacity.

It may be worthy of note that on the same proportion that \$1.401 bears to the net earnings of \$8.862, the Canadian railways, with net earnings of \$325, would pay about \$50 taxes per mile, or the very amount which they are now contributing.

STATE OF COLORADO.

The experience of another State in the Union, viz., Colorado, may be referred to, as shewing how railway assessment and taxation vary at the whim of the State Legislature.

In 1900 the assessment of railways in Colorado was \$35,510,000, out of the total assessment for the State of \$216,776,000. In 1901 the assessment of railways was increased about 275% to about \$122,000,000, while the total assessment was increased about 118% to \$460,000,000.

The railways, however, refused to pay their taxes for 1901, alleging that great injustice had been done to them,

and complaining also of discrimination—that the value of their property was not fairly ascertained, and that other property in the State was not assessed in a similar manner. Litigation ensued, and the State was embarrassed for lack of revenue. The railroad assessment for 1902, as made by the State Board of Equalization, amounted to about \$55,000,000; less than half the amount for 1901.

Is it possible to base any argument for the taxation of railways in Ontario upon the amount of taxes levied or attempted to be levied in Colorado, and some of the Western States?

BASIS OF VALUATION.

It is difficult to say just what is a correct basis; indeed, in estimating the value of railway property as a corporate entity, it is fair to take into consideration the cost of construction, the cost of establishing the business, the cost of reproduction, and the possibility of competition, the capitalization of stock and bonds, the market value of the stock and bonds, the gross earnings, the net earnings, possibility or probability of an increase or decrease in net earnings; but the fundamental and final question is: What is the earning capacity of the company? What is it worth as a source of income? In other words, as laid down by the Commissioners: *What is its ability to pay?* And where with this is coupled the consideration of what benefits are received by the company from the province or municipality which receives the taxes, the real bases or grounds for assessment and taxation have been arrived at, whether the party to be taxed be railway or farmer.

PRESENT SYSTEM OF TAXATION OF RAILWAYS.

The railways of the Province of Ontario are, under the existing law, assessed for all their right of way at

the average value of lands in the locality; and in addition are assessed for and pay a tax upon all stations, buildings, etc., in the same manner as any individual or corporation. This principle or method applies equally whether the right of way is situate in a city, town, village or township; and it is to be observed that no complaint whatever in regard to it is made by or on behalf of any of the cities, towns or villages. If, for instance in the city of Toronto, land adjoining or contiguous to railway property is assessed at \$100 or even \$200 per foot, the railway right of way is assessed at the same figure, and no one has yet been found, so far as any city or town is concerned, to suggest that this is not a fair and reasonable basis—the only complaint is from the townships.

ILLUSTRATION OF PRESENT SYSTEM.

To take a concrete instance, the Grand Trunk Railway has about 2,650 miles of railway in Ontario, of which, roughly, 150 miles are in cities, towns and villages, and 2,500 in townships. The municipal taxes all told are \$120,359, and the provincial tax, at \$5 per mile, \$13,265—total taxes, \$133,624. In Toronto, Hamilton, London, Stratford and Windsor the taxes paid are \$68,086, while in the other cities, towns and villages the taxes are \$37,273; in the rural municipalities, that is in the townships (to take the figures given by Mr. L. E. Annis, President of the East York Farmers' Institute, as they appear in the report of the proceedings before the Select Committee on Municipal Taxation, 1903, at page 19) the taxes paid are, at \$6 per mile, \$15,000—total municipal taxes, \$120,359. That is, the cities, towns and villages receive together \$105,359 for 150 miles or less, or at the rate of \$702 per mile; and the townships, for the 2,500 miles, \$15,000, that is \$6 per mile.

It may be noted that, while the average rate of taxation is \$50 per

mile, the rate in the cities, towns and villages is more than fourteen times the average rate, while the rate in the rural municipalities is less than one-eighth of the average rate. This rule appears to hold good both in the United Kingdom and in the United States; for, although the average rate in the United Kingdom is \$950 per mile, it appears that twenty times \$950 per mile and more is paid in London and the large cities, where there are costly terminals, while in the rural sections the actual tax paid is often considerably less than one-tenth of \$950. If, however, the principle of cost of construction, or cost of reproduction, as advocated by some, were adopted, the taxes per mile in a sparsely settled township would be as high as in the more thickly peopled districts, a result which it is believed not only should not, but does not prevail in any other part of the world.

Taking, however, the taxes paid by railways in the townships at \$6 per mile, then since there are eight acres to the mile, this means a tax of 75c. per acre, which, at the rate of 10 mills on the dollar, not far from the average (according to the report of the Bureau of Industries, 1902, Part 3, Municipal Statistics, page 121), implies an assessment of \$75 per acre, surely a much higher average assessment than that of the surrounding farm lands; this is clear from the fact that the 23,636,178 assessed acres of township lands, less 52,000 acres of lands occupied by the railways, viz., 23,584,178 acres, are assessed at \$430,006,064, or an average of less than \$19 per acre, which at a similar rate of 10 mills on the dollar, means a tax of 19c. per farm acre, against 75c. per acre of railway lands. In other words, each acre of railway lands on the average is assessed three and a half times more than the surrounding township lands per acre, and pays three and a half times the taxes on the pre-

sent basis of taxation; and that, too, on the assumption of Mr. Annis that the average rate is only \$6 per mile.

Individual instances where the taxation of railways is, owing to neglect of assessors or ignorance of the law, not up to the proper standard, can furnish no sound argument against the existing law.

PROPOSED SYSTEM OF TAXATION OF RAILWAYS.

The Bill proposed by the Commissioners, not content with this inequality against the railways, would assess the 6,500 miles of railway, or 52,000 acres of railway lands in the townships, at the very least, at \$30,000 per mile (it has averaged a cost of over \$50,000 per mile), that is, at a total sum of \$200,000,000, so that, at 10 mills on the dollar, the railways would pay \$2,000,000 annually upon their lands (irrespective altogether of their lands in cities, towns and villages), or at the rate of \$38.46 per acre; while the remaining 23,584,178 acres of assessed farmers' lands in the townships would only have to raise in taxes something under \$3,000,000 altogether (the total taxes being \$4,862,630), or an annual tax of 12c. per acre, *i.e.*, three farms of 100 acres each would together pay some \$36 in taxes, or less than one mile of railway right of way adjoining, containing eight acres.

It is said, however, that while the farm lands in the townships of Ontario are worth over \$1,000,000,000, and are assessed at \$456,406,064, or about 45c. on the dollar, yet the railways of the Dominion of Canada are capitalized, including Dominion, provincial and municipal aid, at over \$1,000,000,000, and that the proportion applicable to the Province of Ontario would be nearly half that sum, the latter assumption, by the way, is clearly erroneous, since we are now dealing only with some 6,500 miles in

the townships, and the total mileage in the Dominion is now 18,868; so that allowing for an equal average expenditure throughout the whole Dominion, all that could be attributed to the 6,500 miles in the townships of Ontario would be some \$375,000,000. But can any one seriously contend that this \$375,000,000 expended in the construction of railways should be assessed and taxed on the same basis as the \$1,000,000,000 odd of farm lands?

In the first place, the Government, Dominion and Provincial, and the municipalities (the latter to a very small extent, only 1.5 of the total) contributed to the cost of building these railways; and the ground for such contribution was that the undertaking itself afforded no sufficient inducement for the investment of capital therein without this aid.

In the next place, the cost of construction, or the amount expended on the construction of a railway, is by itself no index of its present value, either for sale or for purposes of taxation. The cost of railway property, even though it could be ascertained from the books of the company is, owing to the changes in mechanical appliances, and the constant fluctuation in price of railway supplies, as well as the inflated values frequently paid for land and damages, rendered useless as the basis for any estimate. Further, the railways in Canada in many instances are now operated by companies who had nothing to do with the building of these lines, and there is no record of the original cost, even if it were of any value.

Again, the railway and its property stands in a different position altogether from the farmer and his lands. The farmer can use his lands in any way and for any purpose he may see fit; he can, subject to competition, of course, ask what price he pleases for his produce, while the railway, on the

other hand, is not only liable to competition, but has been and is subject to Government control, is not allowed to impose such tolls as it may desire, or even as may be necessary in order to make a return to its shareholders, but is obliged to conform to such regulations as the Government may see fit to make; and agitation is constantly going on for lower rates for traffic, both passenger and freight.

BENEFITS RECEIVED FROM MUNICIPAL AND PROVINCIAL TAXATION.

Most important, however, of all is the difference in the benefits received from township municipal taxation by the farmer and by the railway:—Of the \$4,862,630, \$2,000,000 are expended on schools for the purpose of education, a direct benefit to the farmer, whose children are thus educated, but none whatever to the railway; \$60,000 expended for charities, alms-houses, etc.; \$300,000 expended for drainage; \$900,000 expended for roads. In regard to which of these, except the last, can it be said there is any benefit to the railway? If it be said that the railway employees are benefited by these expenditures, the obvious answer is that the railway employees pay taxes as individuals for all benefits they receive. The only item of expenditure which can be said to be of any benefit to railways is that upon roads, and there the expenditure is of greater, or at least equal, benefit to the farmer: indeed, the amount of benefit that the railways receive in townships is more than many times paid for by the \$6 per mile; while the \$5 per mile paid to the Provincial Treasury gives a much more valuable return in the shape of the protection which is afforded by the administration of justice—that is undoubtedly a real benefit to the railways.

SUBMISSION OF THE RAILWAYS.

The railways submit that no considerable or substantial increase, even

by way of Provincial taxation, should be imposed until they are in a position, by increased net earnings, to make provision for and meet same, and that special consideration should be given to lines in those portions of Ontario which are now being opened up and developed.

It is somewhat inconsistent for the Government, whether Dominion or Provincial, to hold out to capitalists the offer of assistance by way of money or lands for the purpose of inducing them to invest in railway enterprises, and on the other hand, so soon as these railway enterprises, which have thus been rendered possible, shew a prospect of realizing something for the capitalist, to take to themselves the prospective profits, and to deny to the investor the legitimate, but long deferred, return of interest on his capital.

The railways of Canada have been built almost entirely by the aid of English and foreign capitalists, and future aid from similar sources will be required if Canada and the Province of Ontario is to proceed upon its course of development.

Will not a severe blow be given to the credit of Canadian railway enterprise if a method or form of assessment and taxation is introduced which will be construed as both a breach of faith and a confiscation of the revenues of enterprises that are now beginning to pay, and will it not also be regarded as an evidence of what may be expected by those who are foolish enough to contemplate putting their money into enterprises which, under ordinary circumstances, can hardly be expected to give any return until after many years?

I. F. HELLMUTH,
ANGUS MACMURCHY.

Toronto, 12th December, 1903.



